



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 18, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 15693**

**1528 Highway 59 South
P.O. Box 599
Thief River Falls, MN 56701**

**Office of the Comptroller of the Currency
Kansas City Duty Station
6700 Antioch Road, Suite 450
Merriam, Kansas 66204-1277**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First National Bank prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of July 18, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

INSTITUTION'S CRA RATING: "Satisfactory record of meeting community credit needs"

First National Bank's (FNB) average loan-to-deposit ratio is more than reasonable given its financial capacity and its competitive environment. FNB makes a majority of its loans within its assessment area (AA) and the geographic distribution of these loans is very good. Also, FNB's distribution of borrowers reflects very good penetration among individuals of different income levels, and farms and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is a \$30 million bank located in Thief River Falls, Minnesota (MN). It is wholly owned by Northern Plains Bancshares, Inc., a one-bank holding company. FNB has one branch located in Middle River, MN and a ATM located in Thief River Falls, MN. The bank's primary lending focus is residential, consumer, and agricultural lending. As of March 31, 1997, the loan portfolio totaled \$22 million and consisted of 28% agriculture production and farmland, 27% 1-4 family residential, 27% industrial production and commercial real estate, 14% consumer installment, and 4% other.

FNB faces strong competition within its assessment area. It is one of eight similarly-sized community banks serving Pennington and Marshall counties. Also, a large regional bank affiliate, and a credit union provide additional competition within the assessment area. There are no other factors or legal impediments, including the financial condition of the bank, which hinders its ability to fulfill its CRA obligation. At the April 20, 1994 examination, the OCC assigned the bank a rating of "Satisfactory record of meeting community credit needs."

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) is composed of the five block numbering areas (BNAs) in Pennington county, MN and the four BNAs in Marshall county, MN. These BNAs are identified as 9901, 9902, 9903, 9904, 9905, 9801, 9802, 9803, and 9804; all BNAs except 9904 and 9802 are designated as middle income. BNAs 9904 and 9802 are designated as moderate income. The 1996 statewide nonmetropolitan median family income for Minnesota is \$38,400. Based on 1990 Census Data, the bank's AA has a population of 24,299 persons and approximately 6,578 families. The AA's family breakdown by income levels is 21% low income, 20% moderate income, 25% middle income, and 34% upper income. FNB's AA contains 10,731 housing units of which 67% are owner occupied and 21% are rented. The median housing value equals \$38,900. However, management stated this value is low given recent increases in local housing prices. Management estimates \$45,000 would be the current median housing value.

The combined unemployment rate for Pennington and Marshall counties is 4%. Based on 1990 Census Business Demographic Data for the 663 farms and businesses that reported income, the AA's farm and business breakdown by gross revenue levels is as follows: 81% with revenues less than \$500,000; 8% with revenues between \$500,000 and \$999,999; and 11% with revenues greater than \$1,000,000. Management confirmed the businesses within Thief River Falls are predominantly small retail and service companies with revenues below \$500,000.

Thief River Falls is located in the northwest region of Minnesota, and is the county seat of Pennington County. The city's population totals 8,010 and represents 60% of the county's population. Thief River Falls' economy is stable and diverse. Along with county government offices, the city has a mix of retail, service and manufacturing businesses. Arctic Cat, Inc. is Thief River Falls's major employer with 1,600 employees. Other large employers include Digi-Key Corporation, Northwest Medical Center, and Thief River Falls School District 564.

Middle River is located in Marshall County and is twenty-two miles north of Thief River Falls.

Middle River has a population totaling 285. In addition to farming, the local economy is supported by Middle River-Badger-Greenbush School District 440, and Arctic Cat, Inc.

Community contacts with the city of Thief River Falls identified affordable single family housing as the assessment area's primary need. One contact indicated many families can't afford a home costing more than \$75,000 and that it is unprofitable for builders to build homes in this price range due to the high costs of building materials. The contact suggested banks could help the community meet its housing need through their participation in a new city housing grant/loan program being developed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's average loan-to-deposit ratio is more than reasonable given its financial capacity and its competitive environment. The bank's average quarterly loan-to-deposit ratio since its last CRA examination equaled 77%. Although FNB is fourth in total assets when compared to seven similarly-sized community banks serving the same assessment area, its loan-to-deposit ratio ranked the highest at 87% on March 31, 1997. For the period March 31, 1995 to March 31, 1997, FNB's average quarterly loan-to-deposit ratio ranked the fourth highest at 79%. The following table provides comparative information for FNB and the seven similarly-sized community banks.

<i>Bank Name</i>	<i>Total Assets 3-31-97</i>	<i>Loan-to-Deposit 3-31-97</i>	<i>Average Loan-to-Deposit</i>
First National Bank, Thief River Falls, Mn.	\$30 million	86.69	79.24
Northern State Bank of Thief River Falls, Thief River Falls, Mn.	\$134 million	84.76	80.11
Border State Bank of Greenbush, Greenbush, Mn.	\$38 million	81.79	82.01
Farmers State Bank of Stephen, Stephen, Mn.	\$33 million	51.94	50.99
Marshall County State Bank, Newfolden, Mn.	\$16 million	78.24	65.99
Argyle State Bank, Argyle, Mn.	\$14 million	68.12	67.86
Valley State Bank of Oslo, Oslo, Mn.	\$13 million	73.62	82.49
American State Bank of Grygla, Grygla, Mn.	\$11 million	66.14	66.14

Lending in Assessment Area

FNB makes a majority of its loans within its assessment area (AA). Based on dollar volume, the bank originated 64% of its agriculture production, farmland, industrial production, commercial real estate loans within its AA. Also based on dollar volume, the bank originated 89% of its home purchase, home construction, and home refinance loans within its AA. For commercial and agricultural lending, we based our conclusion on a sample of thirty-one loans that totaled \$4,436,000 and represented 15% of the total number and 48% of the total dollar volume of commercial and agricultural loans outstanding at May 31, 1997. For 1-4 family residential lending, we based our conclusion on a sample of thirty loans that totaled \$792,000 and represented 19% of the total number and 13% of the total dollar volume of residential real estate loans outstanding at March 31, 1997. For this performance criteria, we used outstanding loans in our analysis since data regarding loan originations was not readily available.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

FNB's distribution of borrowers reflects very good penetration among individuals of different income levels, and farms and businesses of different sizes. Based on our sample of thirty home purchase, home construction, and home refinance loans, we identified the following income distribution for the twenty-seven loans that were originated within the bank's AA. For this

performance criteria, we used only outstanding loans in our analysis.

<i>Income Designation of the Borrower</i>	<i>Distribution of Home Loans within assessment area</i>		<i>Income Designation of families within assessment area</i>
	<i>#</i>	<i>%</i>	
Low-income	6	22%	21%
Moderate-income	10	37%	20%
Middle-income	6	22%	25%
Upper-income	5	19%	34%
Totals	27	100%	100%

The bank also participates in government-sponsored programs that help make credit available to low- and moderate-income persons. Since our last CRA examination, FNB has originated six loans totaling \$84,000 under the Minnesota Housing Finance Agency Home Improvement Loan Program. This program makes it easier for low- and moderate-income persons to afford home improvement loans because interest rates are set according to a persons income.

Based on our sample of thirty-one commercial and agricultural loans, we identified the following gross revenue distribution for the twenty loans that were originated within FNB's AA. For this performance criteria, we used only outstanding loans in our analysis.

<i>Gross Revenue Designation of the Borrower</i>	<i>Gross Revenue Distribution of Commercial and Agricultural Loans within the assessment area</i>		<i>Gross Revenue Designation of farms and businesses within assessment area</i>
	<i>#</i>	<i>%</i>	
< \$.5 million	17	85%	81%
\$.5 -\$.99 milliom	2	10%	8%
>\$1.0 million	1	5%	11%
Totals	20	100%	100%

Limited lending activity to borrowers with gross revenues greater than \$500,000 is reasonable because there are very few mid-size or large farms and businesses within the bank's AA. See the above section "**Description of the Assessment Area.**"

Geographic Distribution of Loans

FNB's geographic distribution of loans reflects excellent dispersion throughout its assessment area. Based on our sample of thirty home purchase, home construction, and home refinance loans, we identified the following geographic distribution for the twenty-seven loans that were originated within the bank's AA. For this performance criteria, we used only outstanding loans in our analysis.

<i>Income Level of BNA(s)</i>	<i>Distribution of Home Loans within assessment area</i>		<i>Income Designation of BNA(s) within assessment area %</i>
	<i>#</i>	<i>%</i>	
Low-income tracts	0	0%	0%
Moderate-income tracts	12	44%	22%
Middle-income tracts	15	56%	78%
Upper-income tracts	0	0%	0%
Totals	27	100%	100%

No activity in low-income and upper-income BNAs is reasonable because there are no low-income and upper-income BNAs within the bank’s AA. See the above section “ **Description of the Assessment Area.**”

Compliance with Antidiscrimination Laws and Regulations

FNB is in compliance with the substantive provisions of antidiscrimination laws and regulations. We found no evidence of discrimination or disparate treatment in our review of the bank’s lending practices.